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APPENDICES

(Preliminary Version)

THE NATURE OF THE POLICY AND TACTICS
OF SOVIET-TYPE ECONOMIC WARFARE
(1949-1952)

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APPENDIX A

Statements on Soviet Trade Policy and Tactics and
the Need for Western Coordination

1. Comments from the Field
2. Extracts from Papers Prepared in Washington
3. Statements by Representatives of Foreign Governments

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APPENDIX B

The Soviet Propaganda Line on Trade

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APPENDIX B

SOVIET PROPAGANDA LINE CONCERNING TRADE

After preparing the first draft of this paper, the writer analyzed a pamphlet issued by the Soviet Government which presented an amazingly concise statement of the apparent and basic Soviet propaganda line regarding East-West trade. The pamphlet, entitled the "Resumption and Development of International Economic Relations", was specifically prepared in connection with the International Economic Conference held in Moscow in April 1952. In this pamphlet the Soviet Government has accomplished a masterful job of skillfully presenting the sundry deceptions concerning the nature of Soviet Bloc trade policies and tactics. This exposition carefully and adroitly takes up each of the features of Soviet policy which would alienate the Free World and indicate the absence of common ground in the economic field. It then blandly denies the existence of the policy or inverts the fact into a lie about Western policies.

This type of Soviet propaganda has a very serious impact in the field of economic relations. It will continue adversely to affect our economic policies until the true facts of the Soviet Bloc economic policies are more completely understood, and understood in such a way that the false Soviet counterfact meets immediate reputation in the Western mind.

The major points of the trade chapter in this pamphlet are quoted below, together with a statement in each case of the fact of the true situation and the reference to the pertinent sections of this paper on "The Nature of Policy and Tactics of Soviet Type Economic Warfare."

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1. SOVIET INTEREST IN TRADE EXPANSION

The Soviet Propaganda:

"The Soviet Union is ever ready 'to expand and strengthen business and trade relations with other countries'"

The Fact:

The Soviet economic doctrine, as well as declarations of Soviet leaders and their trade activities, show this to be an inversion of the fact. Soviet trade is aimed at the development of independence from the need to trade. Soviet policies are not concerned with the principle of expansion of world trade and economic advantages of a division of international labor. The paper on Soviet Policy and Tactics (particularly Part I, Sections II and IV, and Part II) shows that the Soviet interest is in decreasing its dependence upon the non-Soviet world and the development of an integrated Soviet Bloc economy. This discussion points out that its goals and policies are not compatible with Western principles--the expansion of world trade the reduction of discriminatory treatment. The Soviet Bloc countries are interested only in trade which is beneficial to the Bloc from a strategic standpoint.

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2. SOVIET TRADING PRINCIPLES

The Soviet Propaganda:

"The Soviet Union is interested in expanding trade relations with all countries provided the principles of non-interference in internal affairs and honest fulfillment of commitments assumed on the basis of equality and mutual benefits are observed".

"The Soviet Union...steadfastly adheres to the policy of honorable and peaceful relations with all countries that manifest a desire for friendly cooperation provided the principles of mutual benefit and fulfillment of commitments are observed."

"The main condition for the successful expansion of the trade of any state with the Chinese People's Republic, with the European countries of People's Republic, and the German Democratic Republic, as well as with the Soviet Union is absolute adherence to the democratic principles of equal rights and mutual advantage, respect for national sovereignty, and the fulfillment of contracts."

The Fact

The Soviets attempt to convince the Western World that its "economic policies and aims are completely in line with those of the West, and are peaceful in intent, even though serious basic military and political conflicts may be raging simultaneously", as pointed out in the body of the paper (See Premise: Part I, Section IV: and Part II, Section III). The Soviet Bloc cannot rightly speak of trade on the basis of mutual benefit and non-interference in internal affairs of trading partners. The Soviet Bloc, as shown above, interferes directly in the internal affairs of their trading partners by promoting and fostering the circumvention of the trade laws of these countries. The Soviet Bloc does not trade on the basis of mutual economic benefit but on the basis of a strategic quid-pro-quo, while engaged in its own particular type

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of economic warfare. The Soviet Bloc can only speak falsely of these principles of mutual benefit, equality, etc. The falsity of these principles is revealed in the extensive illegal procurement activities conducted by the Soviet Government. The Soviet Government is an active participant, actually financing and promoting transactions of an illegal nature. Contravention of Western controls is an official Soviet policy. In the pamphlet under consideration this illegal activity is almost admitted. In discussing the effects of export control, it is stated: "and indeed no mere legal action can exclude from the sphere of international trade such markets as the USSR...China, Central and Southeast Europe, just as none can in practice impose an economic blockade on half of Europe and nearly all of the continent of Asia".

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SECRET - SECURITY INFORMATION3. RESTRICTIONS OF TRADEThe Soviet Propaganda:

"It is impossible to cite a single measure of the Soviet Government that prohibits or in the least degree restricts trade between the USSR and other countries irrespective of their social and economic system."

The Fact:

This statement is an excellent example of the typical part truth of Soviet propaganda. It is quite true that it is probably impossible to "cite a single measure of the Soviet Government but prohibits or....restricts trade." The Soviet method of restricting and prohibiting trade is not found in its governmental measures, but in its planning arrangements. The documentation in the body of this paper has clearly brought out the discriminatory nature of Soviet long-term and short-term planning. Part I, Section III describes at length the nature of the Soviet priority system and the way in which priorities are accorded not only with regard to commodities to be purchased and sold but with respect to countries. There should not be any doubt that the satellite countries give preferential treatment to the USSR in its transactions. Instances are cited therein in which specific countries are instructed upon the necessity of prohibiting certain types of exports to the Free World. This is an essential element of the Soviet trade policy and system but obviously an unadvertised element. Unfortunately, by their very nature, the Western democracies cannot conceal the restrictions which they have been forced to impose because of the nature of the Soviet trade practice and total objectives. The embargo which the Soviet Bloc initiated against Yugoslavia is, of course, a glaring example of Soviet restrictive practice.

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"Trade with the USSR and the people's democracies does not involve nor could it involve for Western Europe, the dollar problem, one of the most acute economic issues confronting it. . . . Western European countries stand to benefit from the extension of trade with the East European countries: It could help them to reduce dollar shortage if not to eliminate it fully"

Contrary to the propaganda which the Soviet Bloc has tried to spread in the West, that the dollar problem can be alleviated by trade with the Bloc, is the fact that the Soviet Bloc consistently attempts to extort foreign exchange and dollars from the West (Part II, Section VII contains several examples of such efforts.)

5. RELIABILITY OF SOVIET BLOC MARKETSThe Soviet Propaganda:

"By disrupting trade relations with the USSR and the people's democracies, that is, by following the course imposed on them, the Western European countries are depriving themselves of a stable and vast market which is not subjected to adverse market influences."

The Fact:

It is unrealistic to regard the Soviet Bloc as a reliable long-term market or source of supply. Soviet Bloc policies have altered the nature and character of East-West trade. The admitted objective of Soviet policy is to obtain from the West the means of production and the means of attaining economic "independence from capitalistic countries" (These basic policies are reviewed in Part I, Section II of this paper). The Soviets seek independence from the necessity of importing. They would, of course, be quite pleased with the situation in which they could reverse the present position of economic dependence between Communist and non-Communist sectors of the world economy, and could create a situation in which only the West was dependent on them for markets or supply.

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In any event, the markets offered by the Soviet Bloc, because of Soviet policies, cannot be characterized as stable, and of long-term dependable duration.

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9. ECONOMIC WARFARE

The Soviet Propaganda:

"We refer to the main stages of the Western policy of economic warfare and trade bloc of the East...in all fairness one must emphasize the one-sided character of this economy since the Soviet Union and the people's democracies cannot and do not share this policy considering its harmful to the cause of peace, economic progress and prosperity of the people."

"Interests of the Western countries and the people's have been sacrificed to the military-political considerations. It is impossible to appraise it in any other way than the fact that certain powers have gone over in peace time to the reckless policy of economic warfare and blockade".

The Fact:

The accurate fact as to the situation is almost too obvious to mention. The Western world export controls were clearly initiated after the Soviet Bloc had, for some time, pursued aggressively its policy of cold war in all its aspects--psychological, economic, and military. In the West, export controls are still considered as a measure of defense and the West has not yet undertaken the offensive in economic warfare measures. On the other hand, the Soviet Bloc has undertaken policies and measures which are clearly characteristic of economic warfare. (See Introduction, Section III, and Part II). It is the Soviet Bloc countries who have put the primary emphasis military political considerations, that is strategic goals, and have initiated the policy of conducting economic warfare.

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~~SECRET - SECURITY INFORMATION~~S. THE QUALITY OF SOVIET BLOC COMMODITIESThe Soviet Propaganda:

"The high quality of Soviet industrial and other goods has been demonstrated in the postwar years at international exhibitions and fairs, in Paris, Leipzig, Milan, Prague, Helsinki, Bombay, and elsewhere, and has won recognition all over the World."

The Facts:

The poor, rather than the high, quality of Soviet goods has been the subject of many a complaint by Western European countries. The deterioration and the quality of Eastern European products, particularly those of Czechoslovakia, has at times been cited as one of the causes for the low level of East-West trade referred to in the paragraph above. The goods which the Soviets have demonstrated at various fairs are in no way representative of the quality of the goods which have been delivered. Complaints have also been made about prices, delivery dates, inspection facilities, ability to deliver on scale comparable with Western countries, etc.

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2. SUPPORT OF THE ECONOMIC COMMISSION FOR EUROPE

The Soviet Propaganda:

"The Soviet Government has invariably supported all measures proposed in this Commission (ECE) to establish and develop mutually advantageous trade between Eastern and Western Europe."

The Fact:

The Soviet Union has used the ECE as a forum for propaganda, attacking the policies of the Western European countries. It has not shown its willingness "to develop mutual advantageous trade". Instead it has made clear in threats to these countries that it is interested in trade only under the terms defined in the paper above and on the basis of strategic quid-pro-quo principles. For example, it did use the ECE as a channel for an offer to export increased amounts of grain last year, but the condition attached was that specific additional amounts of copper and non-ferrous metals be made available.

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10. RESPONSIBILITY FOR REDUCTION IN EAST-WEST TRADEThe Soviet Propaganda:

"An analysis of the losses sustained by the Western countries as a result of disruption of the international division of labor, that developed through the centuries should include first of all the loss of highly important and the most profitable sources of raw materials and foodstuffs as well as markets for the sale of means of production and manufactured articles. . . Prior to the Second World War the Western European countries covered by shipments from Eastern Europe 35-60 percent of their timber import requirements 20 percent of wheat and eggs, 18 percent of fodder grain, 10 percent of sugar, and 7 percent of tobacco. In the postwar years imports of these goods by Western European countries from Eastern Europe have contracted sharply. . . this unreasonable curtailment by Western European countries of imports, from countries that are their natural trade partners have resulted in a swift reduction of their commodity resources--foodstuffs for the population and raw materials for industry"

The Fact:

Although the Soviet Bloc contends that the West is responsible for the low level of Soviet bloc-Western European trade, the Bloc itself is largely responsible. Its forced industrialization program and agricultural reform program, and the stringency of Soviet controls over trade are largely responsible for the low level of trade, and the existence of export controls is only one factor. Actually export controls did not have an impact upon East-West trade of Europe until well into 1949, and to that date the effects of the Soviet policies were showing that the pre-war levels were far from being attained. (Part I, Section III)

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10. CO-EXISTENCE

The Soviet Propaganda:

"J. Stalin has more than once stated with utmost clarity that the Soviet Union proceeds from the fact of the inevitable long-term co-existence of the two systems--socialism and capitalism--and steadfastly adheres to the policy of honorable and peaceful relations with all states that manifest a desire for friendly cooperation..."

The Fact:

This is the line on co-existence which the Soviet spokesman pull out of the hat every once in a while when interested in coaxing the West into trade deals. The emphasis on long-term co-existence of the two systems is actually the opposite of the Soviet doctrine usually emphasized by Stalin and the Communist party in their indoctrination of Communists. Therein they emphasize the inevitable conflict between the two systems. Their policies, of course, are in actuality dedicated to the direct and indirect destruction of non-Soviet society and certainly not to co-existence.

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II. SOVIET BLOC "SELF-SUFFICIENCY"

The Soviet Propaganda:

"The question arises - whose interests suffer most from economic warfare... There can be no doubt that the above discriminatory measures were meant to retard the rapid economic development of the USSR, China, the countries of Central and Southeast Europe, to undermine and weaken their economies. However, their unceasing economic progress and rising living standards clearly show that to all practical intent and purposes these measures have yielded no perceptible effect whatever... no blockade can shake the gigantic economic might of the Soviet Union which for quite some time now has been capable of meeting almost all its economic needs with its own resources, and secondly... its fraternal disinterested aid to the People's Democratic free countries enable them too to satisfy their basic economic need."

"The Soviet Union, the Chinese People's Republic, and the European People's Democracies are invulnerable to economic blockade. They are a combination of countries that possesses a first-class modern industry outfitted with the latest equipment, a highly developed agriculture, inexhaustible natural wealth and vast markets. The aggregate resources of this group of friendly states are so great and diversified that they fully satisfy their internal requirements and ensure the constant advance of their industry and agriculture."

The Fact:

This picture of a fully self-sufficient Soviet Bloc economy is dangerously and purposely misleading. Even without measuring precisely the relative degree of Soviet and Western independence it is possible to expose the pretense that the Soviet Bloc is less dependent upon economic relations with the West than the West is upon the Bloc.

The vulnerability of the Soviet Bloc is obviously limited by the possibility of making certain adjustments to economic pressures and there is certainly a relatively high degree of potential self-sufficiency, due
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to the abundant natural resources of and the nature of the centralized economy. Nevertheless, the argument that the Bloc "is currently self-sufficient" or that it is invulnerable to economic pressures is far more Soviet propaganda than economic fact.

During the postwar period the Soviet Bloc has relied heavily on the Free World for raw materials and industrial products, despite its declared objective of reducing its dependence upon the West. The Bloc is far from being a presently self-sufficient unit, if this is considered in terms of the maintenance of the present and projected levels of economic development. It can be noted that the present and projected levels of economic development are far lower than those existing in the United States and Western European countries.

There has been much discussion of Soviet Bloc vulnerability. Although some of the intelligence analyses of this question have indicated that the Soviet Bloc is relatively more dependent upon the West than vice versa they have also indicated that the Soviet Bloc is not vulnerable to the extent that a total curtailment of its trade with the West would create conditions to which it could not adjust. Specifically, they point out that economic embargo could not alone bring about the collapse of the economies and governments of these countries. In accepting such conclusions it must always be remembered that vulnerability to economic pressures be measured solely at this one point of the spectrum of impact; i.e. collapse of an economy. A country can be considered to be dependent or reliant upon sources to varying extents. Reliance and dependences are relative concepts and in this context, should not be taken to mean

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to mean that the absence of these sources of supply would bring economic collapse.

The interpretation that the Soviet Bloc governments would not collapse in the face of a Western embargo therefore should not be erroneously extended to mean that the Soviet Bloc nations are contrary-wise highly self-sufficient or invulnerable. It is this myth of current self-sufficiency which the Soviet propaganda is attempting to reinforce. While it might be judged, on the basis of present information, that total economic collapse would not proceed from a total embargo alone, there is likewise reason to believe that serious problems of adjustment are created with the curtailment in various degrees, of Soviet imports.

The details and measurements of Soviet Bloc deficiencies and vulnerabilities have been numerous reported by the various Soviet Bloc embassies. Our Foreign Service officers there have commented with amazing similarity from the various satellite and Soviet posts. Two samples are quoted below.

A despatch from Embassy Praha in November, 1949, described the extent of Czech dependence on the West for raw materials. Although this report is three years old, it nevertheless has a pertinence in a discussion of the impact of export controls: "In contrast to the repeated implication that Czechoslovakia is becoming economically more independent of non-communist countries, the industrialization plans for Czechoslovakian development anticipate a continuing reliance on Western sources of raw materials".

The despatch

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The despatch goes on to comment that in 1949 Embassy Praha obtained a report which leading Czech business officials had prepared for the Czech Minister of Foreign Trade concerning the effect of the ERP and export controls on the Czech economy. Production difficulties and shortages were cited as hampering industrial expansion of the Five Year Plan, and interfering with current output. Specific deficiencies in non-ferrous metals and ball bearings, electric measuring devices, spare parts, textile machinery, instruments, etc., were cited.

A recent report from the Eastern Element, HICOG Berlin discloses a similar story of the impact of Western controls and the continuing vulnerability of the Soviet Bloc:

"Effect of East-West Trade Controls Being Felt by GDR"

Reports from intelligence sources and visitors from the East, indicate that many plants, even SAG's (Soviet) and state owned, are discharging workers for lack of materials. For example, a visitor from the East reports that 100 workers were recently released from the Sachsenwerk, Niedersiedlitz, which produces much needed electric motors; 200 were dismissed at Elblawerk, Heidenau.

A preliminary analysis indicates that the critical material supply situation in the Soviet Zone has resulted from three developments.

First of all, deliveries of badly needed goods and raw materials from the East have decreased during the last few months. There are no conclusive figures available as yet and therefore this factor has to be treated with some reservation...

Thirdly, there has been a definite delay in deliveries from Western Germany. It appears that in the sphere of legal trade between Western and Eastern Germany the administrative difficulties which occurred following the delay of extension of the Frankfurt agreement in January

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and which coincided with rising prices and extended delivery dates in Western Germany were primarily responsible for the drop in deliveries, the impact of which is beginning to be felt."

The main conclusion that can be drawn from the present difficulties is that the still existing economic vulnerability of the Soviet Zone which in turn indicates the value of continuing and intensifying efforts toward an intelligence and effective economic offensive.

Thus, the Soviet Bloc should be considered as vulnerable to Western economic pressures, for it can be weakened and strained by the application of these pressures. To a certain extent this has been attempted, but there are wide areas in which these pressures can be increased.

The key questions concerning Soviet vulnerability were well put by an observer in one of our Iron Curtain missions: can effective coordination of Western economic power and its intelligently increased application and threat thereof, be expected to sufficiently retard Soviet economic development, to enable the maintenance or an improvement in the West's current relative balance of economic, military and technical power, to seriously complicate the Soviet plans for the satellite consolidation and threaten her control or ultimately to convince the Soviets that any approximation of long-term economic development depends upon Western support.

The Soviet propaganda line attempts to have this question answered categorically, no, by fostering the myth of present self-sufficiency.

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The answer on the basis of the fact is that much can be done. The Soviet propaganda must be countered with the facts: without the Free World sources of supply the Soviet Bloc is forced and can be further forced into costly adjustments which can deter the economic development and, in some areas, impair its ability to raise production above existing levels. Far from being self-sufficient, "the Bloc as a whole is short of capital goods in particular, and of managerial and engineering talents of highly skilled labor". (OIR 5477.) It is definitely vulnerable to economic pressures from the West.

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APPENDIX C

Mechanism of East-West Trade

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MECHANISMS OF EAST-WEST TRADE

Excerpts from DRS Divisional Report - 9
"East-West Trade - Its Nature and Mechanisms"

"Since the end of World War II the major portion of East-West trade has been carried on by means of bilateral trade agreements. These agreements are essentially a makeshift mechanical means for facilitating and increasing trade, similar in nature to prewar German agreements and to the early postwar bilateral agreements between Western European countries. Some bilateral mechanism was necessitated by the lack of convertibility of most European currencies after the war, i.e. each currency could be used only in the country issuing it, and not for the purchase of goods in other countries. The lack of convertible currencies resulted in an unwillingness of countries to export more to any trading partner than could be imported from that same country, and made it inevitable that some type of bilateral trading arrangement would result.

There is a great variation in the specific provisions of different trade agreements, but the majority have most of the following characteristics:

They are intergovernmental and strictly bilateral. The Western Governments themselves, however, usually do not purchase or supply the commodities involved. The agreements include itemized lists of specific commodities to be traded (the schedules). These schedules generally cover only short periods (about a year), although the trade agreements and the accompanying payments accords may have a longer period of duration. Each of the two parties agrees to permit exports and imports of these products up to the quantities or values specified, under the existing export-import licensing system. There is no guarantee by the governments that commitments will be fulfilled. After the intergovernmental trade agreement has been concluded, contracts for the purchase and sale of commodities must be signed between the private Western firms and the Eastern European representatives, operating under the authority of the state monopoly of foreign trade, before any goods begin to move.

Settlement for goods exchanged is made through clearing accounts maintained in the respective national banks, or most frequently merely in the Western European National Bank. The purpose of such arrangements is to minimize the actual exchange of currency. At the time of signature of the agreement a credit limit ("swing credit") is established which determines the maximum imbalance permitted in the clearing account. The final settlement of any imbalance left at the termination of the agreement is accomplished by many methods, but the most common are settlement by additional commodity deliveries over a specified period of a few months or by payment in gold and/or dollars.

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The legal nature of the commitments is complicated by the differences in the organization and operation of foreign trade activities in Eastern and Western Europe. Theoretically, the monopoly of foreign trade in the countries of Eastern Europe makes it possible for them to guarantee the purchase or sale of all commodities listed in the agreement. However, in Western Europe foreign trade is conducted primarily by private firms, and the government is seldom in a position to make a binding commitment to buy or sell any commodity. As a result, the commitments of both sides are usually phrased in very general terminology; such as, "each party will grant export and import licenses for..." or "permit the importation and exportation of..." all commodities upon which agreement had been reached. Sometimes a Western European Government will go a step further and will agree to "facilitate the placing of orders" by the Eastern European country, or it may commit itself to do its best to fulfill the quotas. This type of commitment is couched in extremely general terms and appears little more compelling with respect to actual deliveries than those mentioned above. Occasionally, a Western European Government will sign a contract guaranteeing the purchase of certain commodities, e.g. United Kingdom commitment to purchase a certain quantity of grain and timber from the USSR."

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